

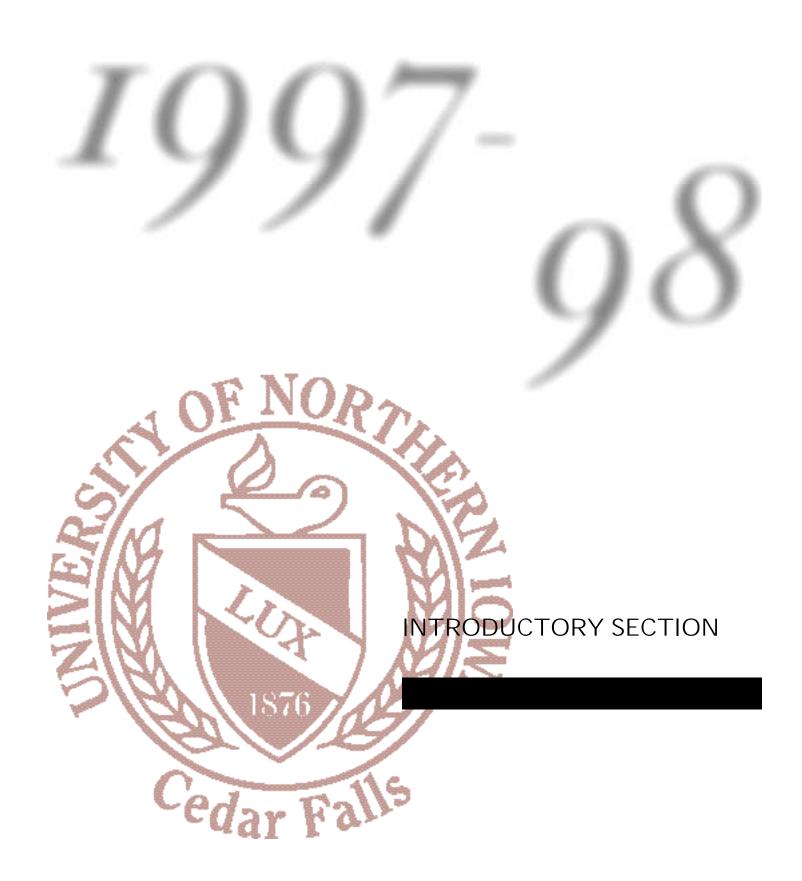
UNIVERSITY OF NORTHERN IOWA



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UNIVERSITY OF NORTHERN IOWA





November 13, 1998

To President Koob, Members of the Iowa State Board of Regents, and Citizens of the State of Iowa

n accordance with Iowa Code Sections 262.23 and 262.25, we are pleased to submit the Annual Financial Report for the University of Northern Iowa for the fiscal year ended June 30, 1998. The Controller's Office is responsible for both the accuracy of the presented data and the completeness and fairness of the presentation. In that regard, we are confident that the information presented is accurate in all material respects and the necessary disclosures have been made which enable the reader to obtain an understanding of the University's financial activity and condition.

The report has been prepared in accordance with generally accepted accounting principles (GAAP) for governmental colleges and universities as promulgated by the Governmental Accounting Standards Board (GASB). As allowed by GASB, the financial statements are presented in conformity with GAAP as established by the American Institute of Certified Public Accountants (AICPA) and the National Association of College and University Business Officers (NACUBO). The report is presented in three sections as follows:

Introductory Section. Includes this transmittal letter, a Certificate of Achievement for Excellence in Financial Reporting, a listing of the Governing Board, and the University's organizational chart.

Financial Section. Includes the independent auditor's report on the financial statements, the financial statements and notes to financial statements.

Statistical Section. Includes selected financial and nonfinancial data. This information is presented for the last ten years to facilitate the interpretation and analysis of trends affecting the financial health of the University. The Higher Education Price Index (HEPI) has been applied to certain financial data. This index adjusts for inflation to clarify actual dollar to constant dollar trends.

The University of Northern Iowa is governed by the Iowa State Board of Regents which holds the corporate powers of the University. Since the University is not deemed to be legally separate, the University is reported as part of the State of Iowa, the primary government, as required by generally accepted accounting principles. For reporting purposes, the University of Northern Iowa includes all departments, accounts, and activities of the University and its component unit. Please refer to Note A in the Notes to Financial Statements for a complete description of the reporting entity and the blended component unit.

Description of Institution. The University of Northern Iowa serves Iowa through a tripartite mission of education, research, and service. Northern Iowa has served Iowa continuously for over 120 years. Founded in 1876 as Iowa State Normal School, the school became Iowa State Teachers College in 1909, and State College of Iowa in 1961. In 1967, the College achieved full university status and was renamed the University of Northern Iowa.

Today, Northern Iowa is a comprehensive university of approximately 13,000 students and 800 faculty. The student body represents every county in Iowa, 46 states, and 55 foreign countries. Over 93 percent of the students are from the State of Iowa.

The University offers over 110 undergraduate majors, and graduate programs at the Master's, Specialists, and Doctoral levels. Building on its traditional strength in teacher education, Northern Iowa offers nationally recognized programs in its colleges of Business Administration, Humanities and Fine Arts, Education, Natural Sciences, Social and Behavioral Sciences, and Graduate College.

The University is accredited by the North Central Association of Colleges and Universities. Individual programs are accredited by several national accrediting agencies. Northern lowa is a member of the American

Association of State Colleges and Universities (AASCU), the American Association of Colleges for Teacher Education (AACTE), and the Council of Graduate Schools in the United States.

ECONOMIC CONDITION AND OUTLOOK

The University of Northern Iowa is one of three state universities subject to the governance of the Iowa State Board of Regents. The State of Iowa has a long and respected tradition for its commitment to education and, accordingly, provides the largest portion of the University's unrestricted operating revenues. Despite economic highs and lows experienced by the State, state appropriations have remained relatively stable. However, the trend over the past ten year period indicates that student tuition and fees have increased at a faster rate than state appropriations, as noted in Schedules 2 and 4. In fiscal year 1988-89, each dollar of tuition was matched by \$3.05 of state appropriations. This compares to \$2.97 in fiscal year 1997-98.

As detailed in Schedule 9, the University has generally enjoyed a steady trend of increased enrollment. This trend peaked in Fall 1991 and 1992 when enrollment exceeded 13,000. The Fall 1997 enrollment of 13,108, for all student levels, is an increase of 151 over Fall 1996. Despite fluctuations, enrollment has increased 14.3% over the last ten-year period. Enrollment projections indicate a growth trend with enrollment approaching 13,383 by the year 2008. This represents a potential 2.1% increase over the next ten year period.

MAJOR INITIATIVES

Major initiatives during fiscal year 1997-98 included progress under the aegis of the University's Strategic Plan; a long-term effort to reorganize personnel and invest in infrastructure for information technology functions; and construction projects for new campus physical facilities to meet the University's academic and programmatic needs. In addition, UNI provides essential services in areas such as business development and technical assistance to businesses and communities throughout the State of Iowa.

Strategic Planning. Under the leadership of UNI President Robert Koob, the development of University goals and academic programs is guided by a long-range strategic plan. The plan was created by a University-wide committee and endorsed by the Iowa State Board of Regents. The Plan's four major goals are:

- 1) Intellectual Vitality: Create and maintain an intellectually demanding and stimulating environment for all members of the University community;
- 2) Community: Create and nurture a sense of community within the University;
- 3) Resources: Effectively manage internal resources and aggressively seek external resources to support university programs and aspirations; and
- 4) External Relations: Develop appreciation and support for the values, programs and services of the University.

Progress toward Strategic Plan goals and objectives is measured through "performance indicators", or quantitative measures against an established baseline for each goal and subgoal. This progress is presented for approval to the Iowa State Board of Regents, the University's governing body.

Qualities of an Educated Person (QEP) Initiative. A component of the UNI Strategic Plan, QEP seeks to reach consensus on the qualities UNI graduates would develop through their educational experience at UNI, both in the classroom and through extracurricular activities, campus life and experiential learning opportunities. This initiative is a coordinated series of studies involving UNI faculty, staff, students, alumni and community members. Participation in the QEP project has grown from 216 in fiscal year 1995-96 to 1,947 in fiscal year 1997-98. In fiscal year 1997-98, working groups of faculty, students and staff conducted a series of studies under the auspices of UNI's Center for the Enhancement of Teaching. Progress toward this goal is measured and reported to the Iowa State Board of Regents.

Information Technology Initiatives. The University is involved in several ambitious initiatives to bring oncampus processes and information, as well as world-wide resources to students, faculty and staff. During fiscal year 1997-98, all residence rooms were wired for high-speed Internet access under the ResNet program. The Data Access Program continues to bring central data and processes to faculty, staff and students, including grade reports, degree audits, forms, financial aid and scholarship information, and budget information. Networking upgrades continue, as do initiatives to upgrade computer hardware in faculty offices and students.

dent computer labs. Also, a special faculty mini-grant program continues to assist faculty in infusing technology into the curriculum.

Physical Facilities. During fiscal year 1997-98, the University achieved substantial completion on the Wellness/Recreation Center and began replacement of the UNI-Dome's fabric roof with a system of steel girders and stainless steel panels. Construction continued on the Gallagher-Bluedorn Performing Arts Center, a \$21 million facility funded through a partnership of state appropriations and private donations. As the fiscal year drew to a close, preparations were under way to commence the renovation of Lang Hall, built in 1901, the oldest academic building on campus.

Scholarship Campaign. In September 1998 the University of Northern Iowa launched the "Students First" Scholarship Campaign, a major initiative to secure gifts and commitments to fund and endow new scholarships for UNI students. "Students First" is being planned as Phase I of a long-term, comprehensive campaign.

Service to Iowa. UNI provides comprehensive assistance and economic development for Iowa's communities and small businesses. UNI's "Service to Iowa" programs are a tangible link between the University and the State of Iowa's needs. The centers serving clients, communities, and businesses are:

Agriculture-Based Industrial Lubricant (ABIL) Research Program. The ABIL Research Program studies and promotes agricultural-based oils such as soybean, corn, canola and sunflower for use in hydraulic and industrial applications. In 1997 ABIL launched its first commercial application of soybased products and is currently field testing a soybean-based railroad track grease.

Institute for Decision Making (IDM). The institute has established a statewide reputation as a first-rate economic development resource group unique in lowa. Its mission is to strengthen lowa's economy by providing hands-on technical assistance to communities to help them create jobs, sustain economic growth and enhance the quality of life.

Iowa Waste Reduction Center (IWRC). The IWRC provides free, confidential on-site environmental assistance to Iowa small businesses. On-site visits are followed by reports regarding regulatory compliance and a pollution prevention plan for the facility. The IWRC is actively involved in applied research, seeking practical solutions for the small business.

Management and Professional Development Center. The Management and Professional Development Center provides education and training (at UNI or the work site) tailored to the individual needs of public and private sector organizations. Staff members have extensive experience in industry.

Strategic Marketing Services. Strategic Marketing Services helps small businesses grow by helping them identify marketing strategies to penetrate domestic and international markets. This is accomplished through long-term market research and technical assistance provided by University staff with private industry experience.

Metal Casting Center. The Metal Casting Center provides a testing and applied research center where lowa metal casting industries can come for consultation and assistance in new technologies. UNI is one of only 30 universities in the country recognized for excellence by the Foundry Education Foundation.

Small Business Development Center. The Small Business Development Center provides technical assistance to small businesses, linking resources to identify and resolve issues in marketing, accounting, finance, information management and organizational development.

FINANCIAL INFORMATION

Internal Control and Budgetary Controls. Management of the University is responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estimates and judgements are routinely made to assess the expected benefits and related costs of internal control policies and procedures. The objective of internal control is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

The adequacy of internal control procedures is reviewed by the Office of Auditor of State as an integral part of the annual audit. In addition, the University's Operations Auditor performs periodic reviews of specific internal control procedures.

Management also maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the lowa State Board of Regents. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by account and function within an individual fund. Budgetary control is also exercised over sponsored projects as defined in grant and contractual agreements with external agencies. The University also maintains an encumbrance accounting system as a significant element of the budgetary control system. At year end, legally encumbered amounts for the General Educational Fund are carried to the next fiscal year without reversion of appropriations. For further information on encumbrances refer to Note A of the Notes to Financial Statements.

As demonstrated by the statements included in the financial section of this report, University management continues to meet its responsibility for sound fiscal management.

University Functions. The University accounts for operations through the fund groups described in Note A. The following schedule presents a comparison of educational and general revenues for the fiscal year ended June 30, 1998 to the prior year's revenues. All amounts in this letter are expressed in thousands.

Current Funds Revenues—Educational and G	eneral Amount	Percent of Total	Increase (Decrease) from 1997	Percent of Increase (Decrease)
Unrestricted	Amount	or rotar	11 0111 1 7 7 7	(Decrease)
Tuition & Fees	\$35,485	27.3	2,087	6.2
Federal Appropriations	220	0.2	(148)	(40.2)
State Appropriations	79,952	61.5	3,938	5.2
State Appropriations-Tuition Replacement	4,579	3.5	399	9.5
Federal Grants & Contracts	524	0.4	3	0.6
State Grants & Contracts Other Gifts, Grants & Contracts	229 666	0.2 0.5	10 (167)	4.6 (20.0)
Investment Income	1,509	1.2	401	36.2
Sales & Services of Educational Activities	6,722	5.2	765	12.8
Total Unrestricted	<u>129,886</u>	100.0	7,288	
Restricted				
Federal Appropriations	1,764	10.1	(104)	(5.6)
State Appropriations	154	0.9	(50)	(24.5)
Federal Grants & Contracts	11,128	63.5	1,053	10.5
State Grants & Contracts	3,011	17.2	148	5.2
Other Gifts, Grants & Contracts Endowment Income	1,427 20	8.2 0.1	142 (3)	11.1
Endowment income		<u> </u>	(3)	(13.0)
Total Restricted	<u>17,504</u>	100.0	<u>1,186</u>	
Total Revenues - Educational & General	\$147,390		8,474	

Changes in revenue were highlighted by:

- * Tuition and Fee revenue increased \$2.087 million which was primarily the result of a 3.99% increase in the basic fees for fiscal year 1997-98. In addition, Fall 1997 headcount was 151 more than the previous year (see Schedule 9).
- * State Appropriations increased \$3.938 million which was the direct result of appropriations for salary increases and programs.
- * Restricted Federal Grants & Contracts increased \$1.053 million primarily due to increased funding for Pell Grants and Federal Work Study.

- * Investment Income increased \$.401 million due to the implementation of fair market reporting for investments (see Note V) and Current Funds sharing in a higher percentage of pooled investments due to higher cash balances.
- * Sales and Services of Educational Activities increased \$.765 million due to either increased or new activity in Other Funds Unrestricted for the following: Management and Professional Development Center, Rural Business Enterprise Program, Camp Adventure Training, Materials Testing Consulting, International Studies Tours, and Continuing Education Activities.

The following schedule presents a comparison of educational and general expenditures and mandatory transfers for the fiscal year ended June 30, 1998 to prior year's expenditures and transfers.

Current Funds Expenditures	Q IVIG	ilidator y	iransicis L	Increase	Percent
			Percent	(Decrease)	of Increase
		Amount	of Total	from 1997	(Decrease)
Inrestricted					<u> </u>
Instruction	\$	49,282	40.7	832	1.7
Research		815	0.7	3	0.4
Public Service		7,315	6.0	957	15.1
Academic Support		20,678	17.0	76	0.4
Student Services		5,245	4.3	814	18.4
Institutional Support		14,049	11.6	(106)	(0.7)
Operation & Maintenance of Plant		12,807	10.6	928	7.8
Scholarships & Fellowships		5,489	4.5	280	5.4
Mandatory Transfers	_	5,630	4.6	744	15.2
Total Unrestricted	_	121,310	100.0	4,528	
Restricted					
Instruction		770	4.4	18	2.4
Research		1,533	8.8	146	10.5
Public Service		7,861	44.8	332	4.4
Academic Support		519	3.0	(132)	(20.3)
Student Services				(5)	
Scholarships & Fellowships		6,959	39.8	823	13.4
Mandatory Transfers		(137)	(0.8)	<u>5</u>	(3.5)
Total Restricted	_	17,505	100.0	1,187	
Otal Expenditures & Transfers -					
Educational & General	\$_	138,815		5,715	

Changes in expenditures and mandatory transfers were highlighted by:

- * All functional categories generally increased over the previous year due to an overall 4.88% increase in salary, wage, and fringe benefit expense. Other changes are explained below.
- * Public Service increased \$.957 million due to either increased or new activity in Other Funds Unrestricted for the activities listed in the revenues section above. Restricted Public Service increased \$.332 due to new or increased sponsored activity for the following: Small business Pollution, Iowa Treatment Needs Assessment, DHS Service Training, Child Protective Training, and ORVA Project.
- * Student Services increased \$.814 million due primarily to \$.505 of personnel costs associated with Wellness and Recreation Services for the new Wellness/Recreation Center.
- * Scholarships & Fellowships increased \$.823 million due primarily to Pell Grant and Federal Work Study.
- * Mandatory Transfers increased \$.744 million due primarily to the debt service requirement on the Academic Building Revenue Bonds, Series 1994.

Auxiliary Enterprise Operations. The University's Auxiliary Enterprise Fund is comprised primarily of the Residence System, J.W. Maucker Student Union, Intercollegiate Athletics, and the Field House. While the auxiliary enterprises are managed as essentially self-supporting activities, the General Educational Fund provides support to certain auxiliaries where the emphasis is on student service rather than direct reimbursement for all activities. This support is provided to J.W. Maucker Union, Intercollegiate Athletics, and the Field House.

The major auxiliaries operate under formally approved budgets which, in the case of auxiliaries funded by bond issues, provide for all mandatory transfers to improvement funds, bond reserve funds, and debt service funds. Management's objective is to maintain Plant Fund reserves at levels adequate to properly maintain and improve auxiliary facilities through renovation, alteration, and equipment replacement.

Debt Administration. Outstanding revenue bonds totaled \$74.881 million at fiscal year-end. This amount consists of \$52.126 million in Academic Building Revenue Bonds, \$13.555 million in Residence System Bonds, and \$9.200 million in Field House Bonds.

Revenue bonds totaled \$69.946 million outstanding for the previous fiscal year. The net increase of \$4.935 million is detailed in Note H of the Notes to Financial Statements.

Cash Management. It is the responsibility of the Board of Regents and its Banking Committee to set investment policy in accordance with Chapter 12C of the <u>Code of Iowa</u>. The Board delegates management and oversight responsibility at the University to the Vice President of Administration and Finance and Treasurer. Investment transactions are reviewed monthly by the Operations Auditor.

By Board policy, the University funds may be invested in the following instruments: 1) obligations of the United States government, its agencies and instrumentalities, 2) certificates of deposit and other evidences of deposits at federally insured depository institutions, 3) prime bankers' acceptances, 4) commercial paper or other short-term corporate debt, 5) repurchase agreements, 6) investments authorized for the lowa Public Employee Retirement System, 7) open-end management investment companies organized in trust form registered with the Securities and Exchange Commission under the Investment Company Act of 1940, and 8) the Common Fund for Non-Profit Organizations. The primary goals of the investment policy, in order of priority, are: 1) safety of principal, 2) maintaining the necessary liquidity to match expected liabilities, and 3) obtaining a reasonable return.

The University operates an unrestricted portfolio, a restricted portfolio, and an endowment portfolio. The University uses professional managers for endowment funds and a portion of unrestricted funds. Restricted funds and the remaining unrestricted funds are invested by the University Controller. Investment performance is measured using the total return method prescribed by the Association for Investment Management and Research (AIMR). Board policy requires that institutional treasurers adopt a "buy and hold" philosophy. For that reason, it is understood that institutional portfolios may not perform as well as the indices. However, performance of the institution's portfolio is evaluated relative to, and expected to compare favorably with, the following indices:

For the Operating Portfolio:

- 1) 91-Day Treasury Bills
- 2) Merrill Lynch 1-3 yr. Government
- 3) Merrill Lynch 1-3 yr. Government/Agency

For the Restricted Portfolio:

1) Merrill Lynch 1-3 yr. Government

For the Endowment Portfolio:

- 1) Standard and Poor's 500 Stock Index
- 2) Lehman Intermediate Government/Corporate Index
- 3) MSCI EAFE Index

The average yields were as follows:

o Operating portfolio 6.41 percent o Restricted portfolio 6.84 percent

Endowment portfolio 23.22 percent

The University's investment performance ranks favorably on a weighted basis with the above noted indices.

Risk Management. The State of Iowa self-funds on behalf of the University for losses related to workers' compensation of all University employees, general liability (tort claims), and property (casualty losses) other than that belonging to auxiliary enterprises. For further information refer to Note K of the Notes to the Financial Statements.

OTHER INFORMATION

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Independent Audit. The Office of Auditor of State is required by Chapter 11 of the <u>Code of Iowa</u> to annually audit all departments of the State. The accompanying financial statements of the University of Northern Iowa have been audited by the Office of Auditor of State in accordance with generally accepted auditing standards and Chapter 11 of the <u>Code of Iowa</u>.

In addition, the Office of Auditor of State conducts a single audit under the requirements set forth in the Single Audit Act and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. This report is issued under separate cover.

Certificate of Achievement. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the University of Northern Iowa for its Annual Financial Report (AFR) for the fiscal year ended June 30, 1997. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized AFR, whose contents conform to program standards. Such AFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The University of Northern Iowa has received a Certificate of Achievement for the last six consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Acknowledgements. Appreciation is expressed to the Office of the Controller, Office of Public Relations, and other University offices for their efforts in assisting us in the preparation of this report.

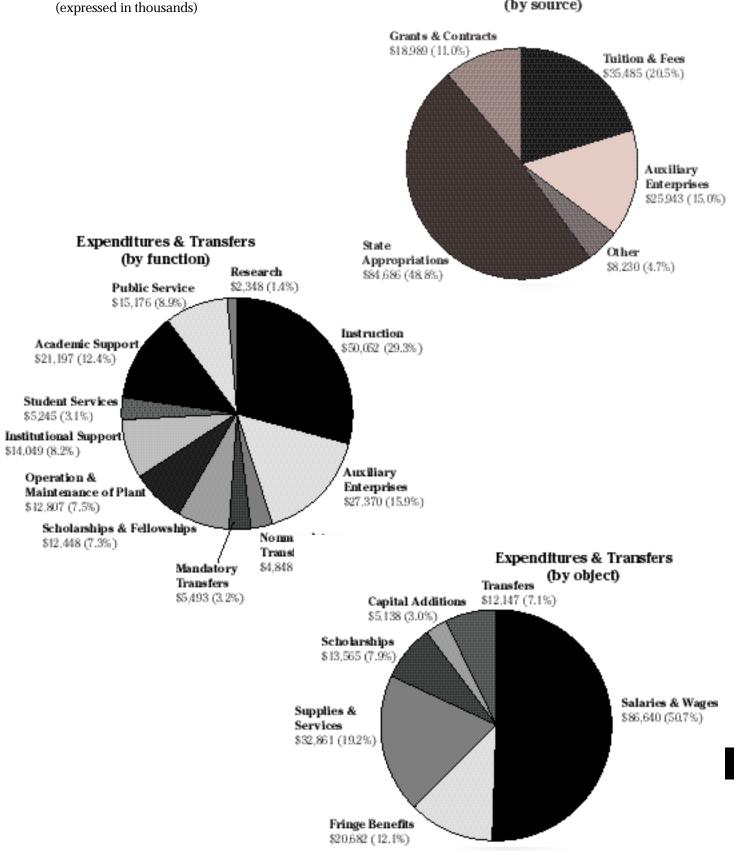
This report expresses our commitment to maintain our financial statements in conformance with the highest standards of financial accountability. This commitment also extends to the presentation of informative and accurate statistical information. We believe the report clearly conveys that the University of Northern lowa is a fiscally sound and dynamically managed institution that is positioned to meet the educational and service needs of the citizenry.

Respectfully submitted,

Gary B. Shontz Controller and University Secretary

John Conner Vice President for Administration and Finance and Treasure





Certificate of Achievement for Excellence in Financial Reporting

Presented to

University of Northern Iowa

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1997

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Dauglas R Ellaworth President

Executive Director

The Governing Board

1997-98

The University of Northern Iowa, together with the State University of Iowa, Iowa State University, the Iowa Braille and Sight Saving School, and the Iowa School for the Deaf, is governed by the Iowa State Board of Regents consisting of nine members.

Iowa State Board of Regents

Officers of the Board

Owen J. Newlin, President R. Wayne Richey, Executive Director

Members of the Board (As of June 30, 1998)

	Term Expires
Owen J. Newlin, Des Moines	June 30,1999
Nancy C. Pellett, Atlantic	June 30,1999
James Arenson, Center Point	June 30,1999
Ellengray G. Kennedy, Bancroft	June 30,2001
Roger Lande, Muscatine	June 30,2001
Beverly A.Smith, Waterloo	June 30,2001
Lisa E.Ahrens, Ames	June 30,2003
David J. Fisher, Des Moines	June 30,2003
Dr. Clarkson L. Kelly, Jr., Charles City	June 30,2003

Officers of the University (As of June 30, 1998)

President of the University Robert D. Koob, B.A., Ph. D.

Vice President and Provost Nancy A.Marlin, B.A., M.S., Ph. D.

Vice President for Administration and Finance and Treasurer John E.Conner, B.S., M.A.

Vice President for Educational and Student Services Sue E. Follon, B.S., M.A., Ed. D.

Controller and University Secretary Gary B. Shontz, B.B.A., M.A.E., Ed. S.

Vice President for University Advancement J. Joe Mitchell, B.A., M.S. Ed., Ed. D.

Executive Assistant/Director of External Relations Patricia L.Geadelmann, B.A., M.A., Ed.D.

